

Message Text

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70

ACTION ARA-10

INFO OCT-01 EUR-12 EA-07 ISO-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FEAE-00 FPC-01

H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC PRIORITY 5104

INFO AMEMBASSY LONDON

AMEMBASSY PORT AU PRINCE

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

C O N F I D E N T I A L SANTO DOMINGO 4712

E.O. 11652: GDS

TAGS: ENRG, SD

SUBJECT: PRESIDENT BALAGUER ANNOUNCES OFFER TO PURCHASE SHELL
REFINERY

1. IN HIS TELEVISED SPEECH OCTOBER 20 ANNOUNCING NEW ENERGY CONSERVATION MEASURES (REPORTED IN SEPTTEL), PRESIDENT BALAGUER SURPRISED HIS AUDIENCE BY ALSO ANNOUNCING THAT THE GODR IS PREPARED TO BUY OUT IN CASH (U.S. DOLLARS) THE OTHER HALF OF THE COUNTRY'S ONLY OIL REFINERY WHICH THE GOVERNMENT JOINTLY OWNS WITH SHELL. THE SUBJECT AROSE IN CONNECTION WITH THE GODR'S PRICE CONTROL ON PETROLEUM PRODUCTS AND THE GODR'S CONTINUED IMPOSITION OF A 6.4 CENT PER GALLON PROFIT MARGIN ON THE RETAIL PRICE OF GASOLINE.

2. CHARACTERIZING THE REFINERY AS IN A DIFFICULT POSITION WHICH IT WILL BE UNABLE TO RESOLVE FOR SEVERAL YEARS, BALAGUER CONTINUED, "THE LOSS OF ALMOST \$7 MILLION AFFECTING THIS COMPANY, AND THE
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IMPOSSIBILITY OF RECOVERING THE AMOUNT IN QUESTION AS SOON AS

WOULD BE DESIRABLE, MAY INDUCE IT TO TAKE THE OPTION OF SELLING ITS SHARES TO THE STATE. IF THIS SOLUTION IS CONSIDERED, THE GOVERNMENT WOULD BE WILLING TO ACQUIRE THE SHARES OF THE SHELL COMPANY AS STATED AMOUNTING TO \$4,450,000, BY PAYING THIS AMOUNT IN DOLLARS WHEN THE CORRESPONDING CONTRACT HAS BEEN SIGNED."

3. SINCE THE REFINERY CAME ON STREAM IN 1973 THE GODR HAS ALLOWED A PROFIT MARGIN OF 6.4 CENTS ON THE RETAIL SALE OF GASOLINE BY THE FOUR DISTRIBUTORS DEPENDENT ON THE REFINERY, NAMELY, SHELL, TEXACO, ESSO, AND ARCO. WITH THE PRICE FROZEN AT 67 CENTS PER GALLON SINCE LAST NOVEMBER, DOMINICAN GASOLINE HAS BEEN SELLING AT LESS THAN THAT IN PUERTO RICO OR ANYWHERE ELSE IN THE CARIBBEAN OR CENTRAL AMERICA.

4. SUBSEQUENT TO THE SPEECH THE HEAD OF SHELL'S DISTRIBUTION NETWORK (WHO IS SPANISH), DELGADO, TOLD THE ECONOMIC COUNSELOR THAT HE WAS COMPLETELY TAKEN BY SURPRISE BY THE PRESIDENTIAL ANNOUNCEMENT THAT THE GODR IS PREPARED TO PURCHASE THE REFINERY IF SHELL OBJECTS TO THE NEW ARRANGEMENTS. HE SAID THERE HAD BEEN NO DISCUSSIONS WITH THE GODR ON PURCHASING SHELL'S HALF OF THE REFINERY.

5. DELGADO CLAIMS THE REFINERY REPRESENTS AN INVESTMENT IN EXCESS OF \$40 MILLION. HE STATES SHELL INVESTED APPROXIMATELY \$10 MILLION OF ITS OWN FUNDS, \$5 MILLION WAS FOR ITS HALF AND \$5 MILLION LOANED TO THE GODR FOR THE LATTER'S 50-PERCENT SHARE. IN HIS SPEECH BALAGUER REFERRED ALSO TO A \$33 MILLION DEBT WHICH DELGADO SAYS IS A LOAN FROM THE JAPANESE FIRM, NISSHO IWAI, FOR WHICH SHELL IS LIABLE.

6. AFTER THE PRESIDENT'S SPEECH, THE POWERFUL CHAUFFERS UNION CALLED FOR THE NATIONALIZATION OF THE FOUR ABOVE NAMED DISTRIBUTORS, A MOVE ALSO SUPPORTED BY SOME MEMBERS OF THE OPPOSITION IN CONGRESS AND ONE REFORMISTA SENATOR. SECRETARY OF INDUSTRY AND COMMERCE GUIDO D'ALLESANDRO, WHO IS A CHRISTIAN SOCIALIST, REMARKED SOMEWHAT OFFHANDEDLY TO THE CHARGE THAT IF THE GODR BUYS THE REFINER IT MIGHT AS WELL BUY THE FOUR DISTRIBUTORS AS WELL.

7. COMMENT: IT IS UNCLEAR AT THIS POINT HOW SERIOUS THE PROSPECT IS OF THE GODR'S ACQUIRING COMPLETE OWNERSHIP OF THE CONFIDENTIAL

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REFINERY, BUT THE GOVERNMENT'S ACQUISITION OF THE DISTRIBUTORSHIPS APPEARS LESS LIKELY EVEN THOUGH DISTRIBUTORS SUCH AS TEXACO HAVE LONG COMPLAINED ABOUT THE PROFIT MARGIN BEING TOO LOW BECAUSE OF THE GODR'S PRICE CONTROL OF GASOLINE. IT IS APPARENT THAT THE REFINERY'S PROFIT SITUATION WILL NOT IMPROVE IF THE GODR INSISTS UPON MAINTAINING THE SAME PROFIT-MARGIN LIMITATION ON THE SALE OF GASOLINE AND THE SAME PRICE FREEZES ON OTHER PETROLEUM PRODUCTS.

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